

CITY OF INDIO

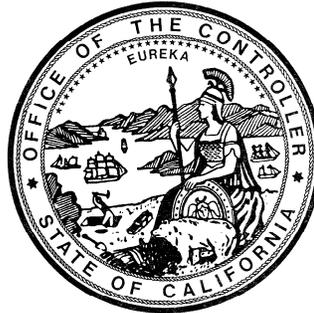
Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2006, through June 30, 2007

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2000, through June 30, 2007



JOHN CHIANG
California State Controller

May 2008



JOHN CHIANG
California State Controller

May 23, 2008

The Honorable Lupe Ramos Watson, Mayor
City of Indio
100 Civic Center Mall
Indio, CA 92201

Dear Mayor Watson:

The State Controller's Office audited the City of Indio's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2007.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund—highway users tax and TCRF allocations—in compliance with requirements, except that the city understated the fund balance by \$134,063 as of June 30, 2007. This understatement occurred because the city charged unsupported city administration fees to the fund. In addition, we identified a procedural finding.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: Glenn D. Southard, City Manager
City of Indio
Susan Mahoney, Management Services Director
City of Indio

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Audit Report

Summary

The State Controller's Office audited the City of Indio's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2007.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund—highway users tax and TCRF allocations—in compliance with requirements, except that it understated the fund balance by \$134,063 as of June 30, 2007. This understatement occurred because the city charged unsupported city administration fees to the fund.

Background

The State apportions funds monthly from the highway users tax account in the transportation tax fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from state taxes on the sale of motor vehicle fuels. In accordance with Article XIX of the California Constitution and Streets and Highways Code section 2101, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes. We conducted our audit of the city's Special Gas Tax Street Improvement Fund under the authority of Government Code section 12410.

Government Code section 14556.5 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. Cities must deposit funds received into the city account designated for the receipt of state funds allocated for transportation purposes. The city recorded its TCRF allocations in the Special Gas Tax Street Improvement Fund. We conducted our audit of the city's TCRF allocations under the authority of Revenue and Taxation Code section 7104.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104. To meet the audit objective, we determined whether the city:

- Properly deposited highway users tax apportionments and other appropriate revenues in the Special Gas Tax Street Improvement Fund;
- Expended funds exclusively for authorized street-related purposes; and
- Made available unexpended funds for future expenditures.

We conducted our audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the city's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the city accounted for and expended the Special Gas Tax Street Improvement Fund in accordance with the requirements of the Streets and Highways Code and Revenue and Taxation Code section 7104. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit disclosed that the City of Indio accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution, and the Streets and Highways Code, for the period of July 1, 2006, through June 30, 2007, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$134,063 to the city's accounting records. Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2000, through June 30, 2007.

Follow-Up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report, issued on June 30, 1999.

Views of Responsible Official

We issued a draft audit report on March 26, 2008. Susan Mahoney, Management Services Director, responded by letter dated April 17, 2008, agreeing with the audit results. The city's response is included in this final audit report as an attachment.

Restricted Use

This report is intended for the information and use of city management and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

May 23, 2008

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2006, through June 30, 2007**

	Special Gas Tax Street Improvement Fund		
	Highway Users Tax Allocation ¹	TCRF Allocation ²	Totals
Beginning fund balance per city	\$ 2,450,163	\$ —	\$ 2,450,163
Revenues	1,459,288	421,765	1,881,053
Total funds available	3,909,451	421,765	4,331,216
Expenditures	(2,506,337)	(421,765)	(2,928,102)
Ending fund balance per city	1,403,114	—	1,403,114
Timing adjustment:			
Accrual of June 2007 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	131,559	—	131,559
SCO adjustment: ³			
Finding—Unsupported administration fees	134,063	—	134,063
Ending fund balance per audit	<u>\$ 1,668,736</u>	<u>\$ —</u>	<u>\$ 1,668,736</u>

¹ The city receives apportionments from the state highway users tax account, pursuant to Streets and Highways Code sections 2105, 2106, 2107, and 2107.5. The basis of the apportionments for Sections 2105, 2106, and 2107 varies, but the money may be used for any street purpose. Streets and Highways Code section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems.

² Government Code section 14556.5 created a Traffic Congestion Relief Fund (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The TCRF allocations were recorded in the Special Gas Tax Street Improvement Fund. The audit period was July 1, 2000, through June 30, 2007.

³ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Unsupported
administration fees**

The city charged the Special Gas Tax Street Improvement Fund with City Capital Improvement Program (CIP) administration fees that were 3.75% of the budget gas tax expenditures. The costs were not substantiated by a cost allocation plan, or any other plan such as that described in Office of Management and Budget (OMB) Circular A-87, to ensure that there was an equitable and auditable distribution of indirect costs to all departments.

Streets and Highways Code section 2101 allows administrative costs that are incurred for necessary research, planning, construction, improvement, maintenance, and operation of public streets and highways.

We cannot verify whether the City CIP administration fees reported are adequate, accurate, or necessary. The Special Gas Tax Street Improvement Fund balance is understated by \$134,063.

Recommendation

The city should replenish its Special Gas Tax Street Improvement Fund in the amount of \$134,063.

City's Response

We agree with your finding and are making the necessary corrections to the Special Gas Tax Street Improvement Fund to correct the \$134,063 understatement. Additionally, we are improving the way we allocate administration charges in the future to provide better support for future audits.

**Attachment—
City’s Response to
Draft Audit Report**



CITY OF INDIO

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April 17, 2008

Steven Mar
Chief, Local Government Audits Bureau
State Controller's Office, Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

RE: Audit of Special Gas Tax Street Improvement Fund

Dear Mr. Mar:

This letter is in response to your Audit of the City of Indio's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007.

Your audit disclosed that the City of Indio charged unsupported city administration fees to the Special Gas Tax Street Improvement Fund.

We agree with your finding and are making the necessary corrections to the Special Gas Tax Street Improvement Fund to correct the \$134,063 understatement. Additionally, we are improving the way we allocate administration charges in the future to provide better support for future audits.

Sincerely,

A handwritten signature in cursive script that reads "Susan Mahoney".

Susan Mahoney
Management Services Director

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>